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Research Update:

Hays Consolidated Independent School District, TX Series 2026A-B Building And Refunding Bonds Assigned 'AA-' Rating

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Overview

- S&P Global Ratings assigned its 'AAA' long-term rating (based on credit enhancement) and its 'AA-' underlying rating to Hays Consolidated Independent School District (CISD), Texas $293.0 million series 2026A unlimited tax school building bonds and $29.2 million series 2026B unlimited tax refunding bonds.
- The outlook is negative.

Rationale

Security

Revenue from an ad valorem tax, levied without legal limitation as to rate or amount on all taxable property within the district, secures the district's GO bonds. Bond proceeds will be used for the construction of school buildings and to refund certain obligations outstanding for debt service savings.

The 'AAA' long-term rating reflects our view of the district's eligibility for the Texas Permanent School Fund (PSF) bond guarantee program, which provides the security of a permanent fund of assets that the district can use to meet debt service on bonds guaranteed by the program. The stable outlook on the long-term program rating reflects our view of the Texas PSF's strength and liquidity. (For more information, see our analysis, Aug. 27, 2025.)

Credit highlights

The rating reflects our view of Hays CISD's growing tax base, healthy local household incomes, and nominally large, albeit declining, reserves. However, sustained historical deficits have materially decreased reserves, and should this continue, along with continued debt issuances for growth, the rating will come under further pressure, as reflected in our negative outlook.

Hays CISD has reported deficits in the past four fiscal years, which management attributes to increased costs from growth and inflation with a stagnant state aid environment. Management also attributes the fiscal 2025 deficit to enrollment coming in below budgeted amounts. We note that the fiscal 2025 deficit is smaller than that of fiscal years 2023 and 2024, when deficits ranged from roughly $16 million to $17 million; we believe this demonstrates management's commitment to reducing the budgetary gap. Cost-cutting measures include staff reduction, software reduction, and class size increases. Officials report that year-to-date results for fiscal 2026 are trending in line with the balanced budget and adopted a surplus budget of $12.2 million in fiscal 2027.

A three-year plan to rebuild available fund balance to the policy minimum of 25% of expenditures has been implemented; officials anticipate compliance with the reserve policy by fiscal 2029. In addition, the district is exploring revenue variables that include selling unneeded assets and land, the addition of virtual students, enrollment growth, and improved attendance. Last, management is considering a voter-approved tax rate election (VATRE) for additional revenue. The VATRE election in November 2025 did not pass, but a new VATRE is under consideration for 2027. Overall, measures are being taken to rightsize future operating performance and start on a path toward rebuilding fund balance. However, should these measures not halt the deficits and should reserves continue to decline, budgetary flexibility and liquidity will further decrease, pressuring the rating.

As a result of rapid enrollment growth of at least 1,000 additional students annually, the district has a sizable debt load to help address capacity needs. Officials anticipate issuing approximately $182.5 million (the remaining authorized but unissued debt) by 2029. Given the elevated debt burden and near-term expected issuance, we expect that the debt will remain elevated.

The rating further reflects our view of the district's:

- Rapidly growing tax base benefiting from proximity to Austin, spurring population and enrollment growth. Significant economic developments supporting management's assumptions of about $1.0 billion to $1.5 billion in assessed value growth yearly for the near future include several thousand homes and several commercial developments.
- History of deficits, resulting in a reduction of reserves to a level below its formalized fund balance policy of 25% of expenditures, though measures have been implemented to stabilize and rebuild fund balance, with improvement expected in fiscal 2027. We will monitor future performance for progress toward narrowing the budget variances.
- Financial policies and practices, including regular reporting to the board on budget-to-actual results and investments, as-needed budget amendments, formalized long-term planning projecting five years out, and formal policies related to investments, debt, and reserves. The district's cyber risk mitigation measures align with our view of its overall risk management policies and practices.
- Elevated debt burden, which we expect to remain so as a result of debt plans, and minimal pressures from pension and other postemployment benefits (OPEB) liabilities.
- For more information on our institutional framework assessment for Texas school districts, see "Institutional Framework Assessment: Texas Local Governments," Sept. 9, 2024.

Outlook

The negative outlook reflects that there is a one-in-three chance that we could lower the rating if the district's measures to stabilize its budget do not halt its declining fund balance, resulting in a lack of progress toward rebuilding its fund balance by fiscal 2027.

Downside scenario

If the district is unable to show progress toward rebuilding its fund balance, resulting in maintenance of reserves lower than peers, or if its debt grows to a level that we believe does not compare with that of peers, we could lower the rating.

Upside scenario

Should the district stabilize its financial performance and begin the process of rebuilding its fund balance, we could consider revising the outlook to stable.

Hays Consolidated Independent School District, Texas--credit summary

Institutional framework (IF)	2
Individual credit profile (ICP)	3.11
Economy	3.0
Financial performance	4
Reserves and liquidity	2
Management	2.30
Debt and liabilities	4.25

Hays Consolidated Independent School District, Texas--key credit metrics

	Most recent	2025	2024	2023
Economy				
Real GCP per capita as % of U.S.	59	--	59	58
County PCPI as % of U.S.	91	--	91	92
Market value ($000s)	19,224,983	19,500,186	17,979,419	15,936,555
Market value per capita ($)	125,363	127,158	127,746	122,368

Hays Consolidated Independent School District, Texas--credit summary

Top 10 taxpayers as % of taxable value	3.9	3.3	3.5	3.4
County unemployment rate (%)	3.3	3.4	3.4	3.3
Local median household EBI as % of U.S.	131	131	126	125
Local per capita EBI as % of U.S.	100	100	94	96
Local population	153,354	153,354	140,744	130,235
Financial performance				
Operating fund revenue ($000s)	--	249,355	228,088	208,404
Operating fund expenditures ($000s)	--	257,507	245,120	227,418
Net transfers and other adjustments ($000s)	--	1,827	734	1,955
Operating result ($000s)	--	(6,325)	(16,298)	(17,059)
Operating result as % of revenue	--	(2.5)	(7.1)	(8.2)
Operating result three-year average %	--	(6.0)	(6.3)	(3.1)
Enrollment	--	24,330	23,313	22,297
Reserves and liquidity				
Available reserves as % of operating revenue	--	8.4	11.8	20.7
Available reserves ($000s)	--	20,898	26,902	43,195
Debt and liabilities				
Debt service cost as % of revenue	--	25.1	24.5	22.1
Net direct debt per capita ($)	10,911	5,334	6,224	4,884
Net direct debt ($000s)	1,673,177	818,051	876,051	636,042
Direct debt 10-year amortization (%)	23	37	40	--
Pension and OPEB cost as % of revenue	--	2	2	2
NPLs per capita ($)	--	489	601	532

Hays Consolidated Independent School District, Texas--credit summary

Combined NPLs ($000s)	--	75,011	84,533	69,282

Financial data may reflect analytical adjustments and is sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. Local population is sourced from Claritas. Claritas estimates are point in time and not meant to show year-over-year trends. EBI--Effective buying income. GCP--Gross county product. NPL--Net pension liability. OPEB--Other postemployment benefits. PCPI--Per capita personal income.

Ratings List	
New Issue Ratings	
US$29,205,000 Hays Consolidated Independent School District, A political subdivision of the State of Texas located in Hays, Travis and Caldwell Counties, Texas, Unlimited Tax Refunding Bonds, Series 2026B, dated: August 1, 2026, due: August 15, 2037	
Long Term Rating	AAA/Stable
Underlying Rating for Credit Program	AA-/Negative
US$292,995,000 Hays Consolidated Independent School District, A political subdivision of the State of Texas located in Hays, Travis and Caldwell Counties, Texas, Unlimited Tax School Building Bonds, Series 2026A, dated: August 1, 2026, due: August 15, 2056	
Long Term Rating	AAA/Stable
Underlying Rating for Credit Program	AA-/Negative